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ABSTRACT

Issues in educational finance in elementary-secondary education for the 1990s are examined in this paper, which asserts that demographic and economic changes have increased the need for additional resources in education. Recent fiscal trends include an increase in resource inequities among the states and a mismatch between resource needs and resource bases. Issues that will need to be addressed in the 1990s include fiscal capacity, restructuring finance formulas, and funding equalization. The future of public education finance at the elementary and secondary levels is at best uncertain; however, it is essential that a scenario for education and for the impact of our future environment on educational policies be developed. (Contains 13 references.) (LMI)

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THE MERRY-GO-ROUND OF THE '90S: FINANCING PUBLIC ELEMENTARY AND SECONDARY EDUCATION

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ABSTRACT

Predicating the future of any public sector activity in our present economic climate is like predicting the weather in the Appalachian Mountains in November. Without the benefit of a crystal ball to ensure accurate forecasting, a strategic plan becomes necessary. In looking to the financial future of public education, the future environment in which that activity will be conducted must be examined. Many factors of the future are not predictable, but there are some key pieces based on known factors of today.

Population and demographic changes are significant not only in magnitude but in impact. Larger proportions of the population are falling into the pre-employment (children and youth) and post employment (retirees) age groups. The population is growing increasingly urban as evidenced by the major population increase in recent years in the suburban areas. The economy has undergone major changes in the past decades, and the magnitude and the rate of growth has changed significantly.

These developments have important ramifications for the future finances of elementary and secondary education, the most important being

additional resource requirements over the next several years. The significant question is what will the resource base be like? Will it be sufficient to meet the requirements of a larger school-age cohort? Addressing these issues is difficult. The supply of revenue for the public sector is highly dependent on the state of the nation's economy. If the economy continues its sluggish performance, the consequences for school finance are likely to be bleak at best. Should the economy improve, some of the problems will dissipate. There have been a number of developments that indicate that the resource base for school will not be as robust as it was in the preceding decade.

A discussion of recent fiscal trends would be incomplete without a review of recent federal aid to education actions, both in real terms and in proportion of school revenue. As a result of the mismatch between resource requirements and resource bases, the '90s are likely to be a period when resource inequities among states will become more pronounced. Within states, there is evidence that resource inequalities among school districts may parallel trends at the interstate level. Over the last few years, there has been a shift back toward greater reliance on the property tax as a revenue source for education, reversing a long period of upward shift in responsibility for financing schools in the state level.

The future of finance of public education at the elementary and secondary level is at best uncertain. In many areas, the fiscal outlook is less than promising. Some localities and a portion of the state may have sufficient resources for adequately financing their schools. However, as a nation, even with an upturn in the economy, the remainder of this century is likely to be a period of great challenge in the financing of the public elementary and secondary schools.

INTRODUCTION

Predicting the future of any public sector activity in our present society and political climate is challenging and in most cases must be couched within the framework of what has happened and what could develop. Information about the environment in which education finance is changing major environmental changes in education development is an important tool for planning and decision making in today's education arena.

As education systems undergo significant reform, it is not surprising to find lawmakers concerned about their role in monitoring these reforms. Whether it is the concern about budgetary implications, equity issues, or the fear of a court mandate to restructuring a school system, the broad issue of school finance clearly dominates the minds of the respondents as they contemplate education issues for the 90's. The challenges for policy makers will be to devise answers that can receive support for resources, can satisfy constituency desire for quality, and can survive court challenges.

Restructuring finance formulas and funding equalization are the two primary school finance issues, so it is not surprising that these issues will be the most important finance sub-issues. States must deal not only with overall spending levels, but with the complex web of separate

funding issues that include difficult concepts within the various foundation programs. States not only will need to address the area of funding equalization but also the issue of capping school expenditure levels, especially in wealthy districts. States must also develop methods that reflect the districts' ability to pay based on the income level and property wealth of the districts.

The issue of fiscal capacity, "commonly defined as the potential ability of local governments or schools systems, to raise revenue from their own source, relevant to the cost of their service responsibility" (U.S. Dept. Treasure, 1985), will have to be addressed during the 90's. Addrsssing fiscal capacities relative to their service responsibility is an important modifier. Addressing the tax bases in factors other than potential fiscal capacity makes it extremely difficult to adjust for cost across communities and school systems. An ideal fiscal capacity model, however, must address them in some appropriate manner.

The time has probably never been more propitious for incorporating cost-effectiveness analysis into education policy (Levin, 1988). The totality of education reform movement needs to be explored beginning with cost effectiveness analysis. When considering decision alternatives, both costs and consequences must be taken into account in a systematic

procedure.

The question before us is multi-facated: with the constant changing society, we have to raise the issue of who should be given the onerous responsibility to provide the necessary financial resources and these ensuing services. Further the issue is the changing characteristics of the citizen's access to policy makers. Given the interaction of powerful social forces and movements, it appears that financing of public education will be transformed in terms of governances, arrangements, sources of revenue, and allocation patterns.

LOOKING FOR A DIRECTION

"Public school policy making is embedded in a complex societal matrix" (Kirst 1986, p. 341). We cannot examine the future of our schools' in this country without examining the future size and distribution of the school population. The economy will in effect determine the financial resources potentially available to politicians for distribution for public education. The public school system in this country is dependent on a larger social force.

Policy makers will need to make some difficult choices in the 1990's, as we find over half of the states facing budget problems now (Snell, 1990). State revenue is growing at a slower pace than expected in

most states. Legislators will be required to make some hard choices as they develop policy for fiscal issues during the 1990's. The budget problems required forty - four state legislatures to meet in special session in 1990 (Snell,1990).

One of the elements we need to examine is where we are with respect to our public school enrollment by examining the trend from 1971 when the enrollment peaked in the U. S. public schools in grades K-12. After 1971, the enrollment decreased steadily, reaching a low of 39.3 million in 1984. Since that time, we have observed a constant increase in student population reaching 40.8 million in the fall of 1990. Snyder (1990) predicts, "By 1995, enrollment is projected to reach 43.7 million students and continue to climb to more than 44 million students by the year 2000, close to the all time high enrollment" (p. 4).

We need to be aware of our changing student population particularly in large city school systems. Fertility rates in metropolitan areas will result in a significant increase in student population in the 1990's. The growth in the number of Hispanics 5 to 13 years old of age has exceeded the growth rate of both the black and white population in the 1980's. Most students of education finance know this will increase the overburden on school budgets of many major cities, as we will need to

increase our services to these minority students. The 1990's will find the trend of immigrant and minority women with an even higher fertility rate. By the year 2000, nearly a third of all 5 to 13 year olds are expected to be minorities (Snyder,1990).

Policymakers face difficult choices in the 1990's. They must determine what resources are necessary to maintain present efforts, and what resources are going to be needed if we aspire to increase programs and services. Ever increasing resources will be needed to help a pupil population with ever increasing needs transcending into the mainstream of American society.

Perhaps our expectations for financing our education system in the past few years have exceeded reasonable bounds. The initial revolution in education finance, which attempted to link the allocation of funds to an investment strategy, has floundered on the issue of a production function for education. Economists appear unable to trace input resources through the schooling process to society's educational investments. Somewhere along the way the numbers just do not add or subtract appropriately (Thomas, 1975).

Probably the best means we have found to project future expenditures of elementary and secondary schools is to examine past

trends of current expenditures and average annual teacher salaries. Current expenses increased over the past 15 years. They equaled $146.1 billion in the school year 1986-87, a 217 percent increase in current dollars over 1972-73 school year. At the same time, current expenses in constant dollars increased about 24 percent from 1972 to 1986-1987. At the same time, current expenditures per pupil in average daily attendance (ADA) in constant 1987 dollars rose from $2,799 to $3,966, approximately a 42 percent increase (Gerald D.,1987).

From the purely fiscal side there tends to be a mismatch between the potential demands for school - as measured by the direction and magnitude of change in the projected size of the school age population and the state - local resource base. Interestingly, states with the largest projected increase in their school age population (estimated greater than 25 percent increase between 1985 and the year 2000) appear to share a significant number of similar fiscal characteristics, which may signal potential funding problems in the future years. In many instances these states tend to be the ones that currently have expenditures per pupil, below average fiscal capacity and a high level of dependence on federal aid (Sherman J.,1983).

Attempting to forecast the future needs of elementary and secondary schools, we must make two assumptions for making our predictions. First, it is assumed over the next 10 years there will be steady economic growth with disposable income increasing each year. Second, revenue receipts from state sources will increase at the same annual rate as from 1985-86 to 1986-87, approximately 2.9 percent. Using the low path for revenue receipts from state sources, current expenditures will increase about 26 percent to 183.9 billion dollars in 1997-98. Current expenses per pupil in A.D.A. will increase about 14 percent to $4.505 per student (Gerald D.,1987) p. 77.

Efforts to predict the future trends in public school finance are obviously fraught with difficulty. Yet some comprehension of the direction of future demographics and fiscal trends is essential if educators are to plan for years ahead. If the economy continues its sluggish performance, the consequences for school finance are apt to be adverse; should the economy take an upturn, the prospects will obviously be significantly brighter. Nonetheless, there have been a number of developments in state-local finances, suggesting that the resource base for schools may not be as robust as it has been in the past (Sherman,1983).

There is today a growing mismatch between resource requirements and resource bases. The 1990's are likely to be a period when resource inequalities among states become more pronounced. We already have evidence of spending divergence among the states over the last few years. States such as Alabama have fallen further behind national spending levels for education and high spending states such as New Jersey have pulled farther ahead of the nation. Given the confluence of demographic and fiscal trends, we can expect this development to continue throughout the 1990's (Sherman,1983).

The past two decades have witnessed a separate but widespread effort to achieve greater social equity through purposeful reform of the financing of American public education. The 1980's will be remembered as a decade of educational reform: in various sites across the United States parents, teachers, community leaders and policymakers no longer accepted the entrenched failure of school systems and prompted radical reforms including restructuring of the school (Palanki R.,1991).

A clear message over the importance of K-12 finance has understandably created a very difficult dilemma for state legislatures nationwide. Questions of fairness and equity are at the core of the very complex debate about the quality of the education of our children. School

finance litigation has already touched over half of the states. In the past two years the courts have declared finance formulas unconstitutional in Kentucky, Texas, New Jersey and Montana. In addition approximately 12 more states have lawsuits under consideration (State Issues,1991).

The impetus for a movement to allocate resources to school districts on a decentralized basis is beginning to surface and for allocating resources to individual schools within a school district has been mounting for some time (Hack, W.,1985). This concept achieved a national visibility with the community control issue at Ocean Hill -Brownsville in New York City several years ago.

It may be time to begin to re-think the fundamental policy issues which underlie how our school should be supported in the current movement. The re-thinking evolved from a growing consciousness of the importance of two principles. First, school finance is not a separate issue concerned only with funding for schools, but is actually a part of a much more comprehensive topic, public finance. Secondly, the establishment of school finance policy should not be driven by the development of complex statistical formulas or tables of distribution, but by consideration of the commitments which the policy is trying to address and the constraints under which the policy must function (Hansen,1990).

CONCLUSION

Atempting to predict the future of funding of public education in the 1990's, is analogous to trying to get on a moving merry-go-round: where does one find a safe starting point or a bench mark? Attempting to predict the future of any public sector activity in our society today is probably impossible. We have no crystal balls to ensure any validity in our predictions. We all are aware that education funding decisions are political decisions, and politics are motivated by the values held by the politicians' constituencies.

To find future directions for the 1990s, it is necessary to speculate on the future environment. While we know many factors of the future are not predictable, there are some key pieces that can be predicted based on known factors today. For the strategic planning purposes, we will make some assumptions based on what we presently believe to be correct. These assumptions must include a changing ethnic makeup of student population with increasing number of minorities, especially of Asian and Spanish-speaking and a slight increase in the total population of the public schools reaching a high in the year 2000.

We have made assumptions about the future of education finance during the 1990's. We can expect to see a continuation of the current

emphasis on state and local funding requirement. Clearly, throughout the 1990's, all citizens will need to develop a scenario for education and for the direction that future environment will impact our future education policies. A bit of vision might help the planning and make the ride on the financial merry-go-round of education finance more mutually rewarding for givers and receivers.

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